

INTERNATIONAL CITY MANAGERS' ASSOCIATION
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THE PREPARATION AND ADOPTION OF THE ANNUAL BUDGET

How does the chief administrator bring together the estimates for the budget document? How does he present it to the council? How does the council review and act on the budget? What part is played by the public?

A suggested method of preparing work programs and the annual budget estimates is outlined in MIS Report No. 53 issued in June, 1948. The work programs and budget requests submitted by department heads are discussed by the chief administrator (mayor or city manager) and department heads at numerous conferences until agreement is reached on what the chief administrator believes to be the best program for the community. It is not desirable to hold any hearings or give out any publicity on unrevised estimates or on conferences between the administrator and department head on their budget requests. Under the executive type of budget used in the federal government and in the great majority of state and local governments, no publicity is given to the budget estimates until the budget document is presented by the administrator to the council. The council and not the administrator is the proper agency to conduct public hearings on the budget.

In addition to the requests of department heads, the administrator may receive requests from individual councilmen or from citizens. Councilmen of course are supposed to make suggestions only as a whole body and not as individuals. But the administrator cannot prevent the individual councilman from making suggestions. In some cities such proposals are included in the budget if the item is justified and funds are available. If this is not the case, then the proposal may be mentioned in the budget message, or the administrator may submit the proposal to the council separately from the budget, or he may ask the councilman to present his request for consideration at a regular informal meeting of the council, or he may bring up the proposal at a council meeting and ask the council to decide what should be done about the request.

With regard to requests received from citizens, the administrator's office in some cities advises the citizen whether or not the request can be granted. If the item already has been considered and rejected, the reasons are given to the citizen. If the request cannot be granted the administrator's office may suggest that the citizen appear at the public hearing on the budget. Or he may indicate that he will take up the matter with the council in which case he should report back to the citizen or the group making the request when the council has acted.

The city manager usually discusses general financial policy informally with the council before the departmental budget estimates are compiled. The manager needs to know what the policy should be with regard to wage and salary increases, the extent to which capital projects will be financed on a pay-as-you go basis. A few managers hold a meeting with all department heads present for a quick review of their individual budgets as a means of informing the council before the budget is finally put together by the manager. In most cities, however, the first budget consultations between the manager and the council are held after the budget has been submitted to the council.

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The Budget Document

When the budget data have been gathered and the administrator's decisions have been made, the final "budget document" is prepared. Some of its contents may be specified by charter or ordinance. In any case the document should provide a complete picture of the financial program in a form that can be understood by the city council. The document should give clear emphasis to the important policy decisions that must be made. The zeal of the technician for complete detail often must be somewhat curtailed in the interest of simplicity. Simplicity can be achieved without omitting important facts of the financial plan by preparation of a well-designed budget message, by use of carefully chosen summaries, by omitting minor account breakdowns, and by placing special nonoperating fund data in a special section near the end of the document.

The budget document is normally presented in at least two major "parts". The first "part" contains the budget message and summaries of revenue and expense information on all funds which have direct bearing on "cost". Extra copies of Part I may be printed for more general distribution than the balance of the document. Part II which contains the detailed supporting data may be divided into several sections. The first sub-section will contain detailed supporting data on expenditures by departments. The second subsection may contain the detail of the year's portion of the long-term capital improvement program. The third sub-section may contain information concerning special funds not directly involving "cost" to the taxpayer such as trust funds and revolving funds. Some cities add a Part III which includes the drafts of ordinances to be passed by the council to adopt the budget program, such as the appropriation ordinance, tax levy ordinance, and the borrowing ordinance (if bond issues are proposed).

Budget Message. The administrator's budget message can be the primary means of conveying a clear understanding of the problems to be faced by the council in reviewing the budget program. The message should outline the fiscal policy proposed and the basic premises that underlie the estimates. Note should be made of any major changes recommended in the level of municipal services. Important changes in costs, revenues, and financial trends should be explained. A few carefully selected charts and graphs may be interspersed with the written text to add emphasis. Brief comments may be made in the message concerning some important items of increase or decrease in department budgets. The budget message, however, must be concise and designed to maintain reader interest. Detailed explanations of work programs should be reserved for budget conferences between the council and the chief administrator. The purely monetary side of the financial plan should be set forth in summary tables and detailed sections which follow the message.

The purpose of the budget message is to give life and meaning to the budget figures and "highlight" the salient features of the proposed plan of operations and finances for the coming year. It should include a summary of financial operations during the past year (which will generally just be closing when the new budget is submitted), an analysis of the financial condition at the present time, a description of the proposed financial and activities program, and an explanation of the principal budget items.

The experience of the past year may bear upon the decisions which ought to be made in the budget for the coming year. In any event, it is desirable to report briefly on the execution of the budget which was adopted a year ago and to show that the statements made to the council regarding the amount of work to be done and the financial limitations then established have been adhered to. If for any reason it has been necessary to amend or depart from the budget program

of the preceding year, the circumstances should be explained - a flood, heavy snowstorms, an adverse court decision, or other reason- should be reported objectively and impersonally. If expenditures have been less than anticipated the reasons should be stated.

This "thumb-nail sketch" of the experience of the past year leads naturally to a discussion of the fiscal and operating condition of the municipality at the present time as compared with the condition a year ago. At this point the budget message ought to furnish a clear and convincing answer to such questions as: Are the quantity and quality of service now being rendered to the citizens adequate, average, or substandard? What is the condition of municipal buildings and equipment? Where is the municipality headed financially? What does the balance sheet show? Is there likely to be a surplus or deficit at the end of the year just closed? Is the municipality well off, moderately well off, or in distress? Is the government in a stronger or weaker position than a year ago and the preceding years? What factors account for the trend? If adopted, what effect will the proposed budget have upon these conditions? To what extent does this budget reflect long-term planning and meet long-term needs?

Next the budget message should summarize the financial and operating program embodied in the proposed budget, pointing out the items in which the principal changes occur and the factors which prompt the increased or decreased request. It is particularly important to emphasize here and elsewhere throughout the budget the relationship between activities and finances and to call attention to the work programs on which the budget is based. The council is thus reminded that any changes in income or expenditures will require corresponding changes in services, and vice versa.

The administrator can point out that because of certain demands for new activities or outlays or the development of certain unavoidable needs the budget proposes increased appropriations for these items; or, he may point out that the budget proposes reduced appropriations for certain activities because revenue is decreasing. He may be able to state that reductions in certain items reflect the adoption of more economical methods, or that proposed increases in certain other items (such as purchasing or personnel administration) represent the cost of installing systems of administrative control which will accomplish ultimate economies in all operations.

Somewhere in the budget message, the administrator should refer to the fact that the capital outlay items in the proposed budget are taken from the long-term budget, and he should describe the projects now being added to the long-term budget for a new year (five or six years hence). If there is no long-term budget, and it is the policy of the municipality to authorize improvements chiefly on the basis of competing pressures from interested groups, with little or no planning of either physical facilities or financial requirements, the administrator is failing in his duty if he does not point out the difficulties into which the city is running because of that policy and the advantages which would be derived from a systematic programming of public improvements and long-term budgeting.

The budget message may well give a clear explanation of the major financial problems of the municipality and the measures proposed by the administrator in the budget for remedying them. Here the administrator has both an opportunity and a duty to remind the council and the public of some of the fundamental issues which may have been overlooked or even deliberately pushed aside because they call for hard work or unpopular decisions. Perhaps a complete reorganization of the municipal government is needed, or there is need for changes in antiquated

state legislation or local ordinances, a modern assessment system, debt refunding, or the untangling of a legal snarl involving delinquent special assessments and ill-advised public improvements in the outlying areas.

It may be that municipal revenue is falling off sharply because of economic conditions in the community, restrictive legislation, or tax limitation measures that reduce the city's income to such an extent that within the next year or two it will be insufficient to finance the demands for service of a growing community. Perhaps the municipality is hard pressed to finance public improvements and the extension of operating services to new subdivisions where, because of homestead exemption, the property owners pay no direct taxes. Perhaps the budget proposes the imposition of a service charge for garbage removal and other services, in order to meet that situation.

Any other special local fiscal problem, e.g., tax delinquency, tax exemption, mandatory expenditures, use of idle funds, may be stated briefly in the coverage and suggested action outlined. To the extent that some of the budgetary issues involve matters of general policy, the city manager may not feel called upon to offer a definite recommendation, at least not publicly. However, he can and should state the issues, outline alternative courses of action, and supply the facts which will assist the council in reaching a decision. He cannot dictate the decisions, but he can compel recognition that the problems exist and that some decision must be made.

Summary Statements of Revenue and Expenditures. Summary statements of revenues and expenditures follow the budget message. The exact form of these statements depends somewhat on the legal fund structure by which the municipal accounts must be kept. Some cities have simplified the summary presentations by combining all governmental operating funds with codes or abbreviations noted on special fund revenue or expenditure items. The total at the end of the series of items on each statement is then broken down by funds. The other method of presentation is to summarize the data on each fund separately. The commonly used summary statements are:

1. The General Budget Summary -- This statement shows, preferably on one page, the balance between proposed expenditures and resources. It may be divided into several sections -- one for each fund. If the fund structure is complicated, it may be simplified by combining funds under two or three groups such as governmental operating funds, capital improvement funds, and utility funds. If the latter method is used a statement should follow showing fund breakdown for each group.
2. Summary of Expenditures -- This will give a summary breakdown of expenditures by function, department, and fund. Frequently two schedules are used -- one giving a comparison of the proposed budget with the current budget and several prior years' actual expenditures, and one giving breakdown of expenditure totals by character, such as personal services, contractual services, commodities, fixed charges, and outlay.
3. Summary of Property Tax Revenues -- This schedule will show a tabulation for several years of important data concerning property taxes. Items included are assessed valuation by class of property, tax levy, tax collections, distribution of receipts by funds, and detail of tax rate.
4. Summary of Miscellaneous Revenues -- This schedule will show a tabulation for several years of revenues collected and analyzed by source and by fund.

5. Statement of Bonded Indebtedness -- This statement will show data concerning bonded indebtedness including amount outstanding, bonds authorized and unissued, condition of sinking fund and analysis of legal debt margin.

Detailed Budget Estimates. Part II of the budget document which follows the budget message and summaries gives detailed analysis of each department's budget and supporting data for nondepartmental expenditures (see suggested forms 2, 4, and 5 on pages 214 and 216 of MIS Report No. 53 issued in June, 1948.) It is necessary to omit minor details if the size of the document is to be held within reasonable limits. Personnel schedules should be shown by position classification and salary range and details of individual employees' names should be omitted. Another sub-section may contain the detail of the year's portion of long-term capital improvement program. Still another sub-section may contain information concerning special funds not directly involving "cost" to the taxpayers, such as trust funds and revolving funds. Detail of expenditures can be shown by major activities under each department with breakdown such as personal services, contractual services, materials and supplies, and fixed charges. The administrator should have detailed information which he can provide if requested during the course of his budget conferences with the council.

It is not necessary or desirable to include in the detailed budget estimates the requests of department heads. All estimates and work data received by the administrator are considered as preliminary to the budget. Departmental requests have little value because the administrator and the department heads agree upon recommendations to make to the council before the budget is submitted. Further requests cannot be submitted by department heads except through the administrator and department heads generally are not permitted to sit in with budget conferences between the manager and council to discuss their requests without the administrator's approval.

Most budget documents contain little or no activity data, although, in some cases, complete information is later made available either orally or in writing in answer to questions raised by the council during its discussion of the proposed budget. Even cities which use departmental work programs seldom include them in the budget even in summary form. Such information, however, actually is more important than detailed object account. It is suggested that the budget document either contain a brief summary of the work program as explanatory text to accompany budget figures for each department or that a separate report be submitted with (or immediately after) the budget document giving information on work programs.

If work program information is submitted as part of the budget document less detailed financial data is required to explain the various budget estimates. The administrator should not expect a mass of detailed figures to "speak for themselves". This plan will enable the administrator to "decentralize" his budget message into a number of text explanations each of which introduces the detailed budget figures for one of the departments. The health department section of the budget document, for example, will contain a summary of pertinent data regarding that department: its organization and functions, its work program, proposed expenditures for the coming year with comparative data for other years, and facts concerning local health conditions compared with those of other communities.

With this decentralization of functional data, it will no longer be necessary to discuss the individual appropriation items in the general budget message except as they are major elements in the budget situation; and even then it will be sufficient to mention them briefly and refer the reader to the subsequent section of the document in which the several departments are treated in detail. But in presenting the budget of a large city the work-program notes probably

should be set forth in a separate document because of space limitations and the problem of finishing all financial adjustments in time to meet the deadline. The separate budget explanation document can be finished a week or so after the budget is in the hands of the council in time for consideration at the informal budget conferences. It can be presented as one complete document (as in Los Angeles and San Diego Counties) or as separate reports passed out during conferences (as in San Diego).

The Budget Ordinances. Finally, the budget document may contain as Part III the ordinances or resolutions which are required, under the laws governing the particular municipality, to put the proposed budget into effect. Such items may include appropriation, tax levy, miscellaneous revenue, bond authorization, temporary borrowing, or other measures. These measures can then be introduced on first reading at once and can thereafter be modified to reflect any changes in the budget plan which are made by the council.

Publicity on Budget. The first publicity should be given the budget when it is submitted to the council. The chief administrator should be careful not to release information concerning either the budget totals or details of programs proposed for various operations until the budget document is in the council's hands. The city council is very likely to be resentful if information is prematurely released to civic groups, taxpayer's associations or newspapers. Councilmen may be placed in a very embarrassing position if they are questioned concerning the budget by some citizen or citizens group which has information concerning the budget proposal not already known to the council.

It is usually dangerous practice to give even an advance release to newspapers so that a budget story can be prepared ready for publication on the date of budget presentation. If such an advance release is essential because of printing deadlines in a community not served by a daily paper, the information should be cleared and copies of the release furnished at the same time to the council. The chief administrator should prepare a short statement giving the high points of the budget to aid newspaper reporters in preparing their budget story. He should also set aside sufficient time on the day of budget presentation to confer with reporters and assist them in every way possible to give the budget proper newspaper coverage.

Sufficient copies of the budget document should be made for distribution to newspapers, libraries, and civic organizations after it has been submitted to the council. A limited number of copies also should be available for citizens who request them and extra copies should be on file for public inspection in the city clerk's office and chief administrator's office. The budget message and summary sections often are printed in adequate quantity for wide distribution. This section of the budget can be passed out to all persons present at budget hearings or at any public meetings where the matter is to be discussed.

Council Action On the Budget

Up to this point the chief administrator has accepted personal responsibility for the budget. From this point on the council will make the decisions and must therefore accept full responsibility for the results. Whether they make few or many changes in the proposed budget, it is they, and not the chief administrator, who will be answerable to the citizens if the budget later proves unworkable or inadequate. This being the case, the members of the council must review the proposed budget carefully and critically. It is neither necessary nor desirable, however, for the council to concern itself with minor details of the work and finances contained in the proposed budget except as they relate to major policies and programs.

The first step for the council in reviewing the budget is to consult with the chief administrator for detailed explanations of the work program. Next, the council holds public hearings so citizens may express their sentiments. Thirdly, the council again discusses the budget in executive sessions with the administrator and agrees on the final budget.

The budget document should be placed in the hands of the councilmen for study a few days before they meet to consider it. Referral to a committee is an unnecessary waste of time, except in the case of a very large city or where there is a very large and unwieldy council. A series of informal conferences may be held at which time the administrator explains briefly the work programs of each department and gives the reasons for various cost increases or decreases. He should be prepared to discuss modifications in the programs and explain the effect on services of any increases or decreases which may be proposed.

The administrator may find it helpful in making his explanations to use large display charts illustrating financial trends. If work program data are not included in the budget document the administrator should have prepared summary statements explaining work programs and cost changes which he can distribute during the conference and serve as a basis for the discussion. The administrator must use his imagination in the presentation of the budget and should welcome the opportunity to answer the questions raised.

In reviewing the budget document the council may sit as a committee of the whole in order to have every member participate in an informal discussion of the budget with the administrator and individual councilmen expressing their views briefly. The consensus of council opinion can be ascertained by taking informal votes on the main points or items. Participation of outside persons may be desirable at some of the meetings of the committee of the whole. When the committee of the whole has concluded its work the presiding officer can return to his seat, the committee makes a report, and the recommendation of the committee is then before the entire council for action. This system is preferable to handling by a standing committee on finance. The administrator of course is present to answer questions and to take part in the discussion.

Often there is no difference between the departmental requests and the manager's recommendations because the manager assists department heads in preparing their estimates. Thus the council seldom asks the manager to request department heads to explain or justify the manager's recommendation in their departments. Common practice is summarized by one manager who wrote: "The council usually has confidence in a manager's recommendations and does not desire to hear from the department heads". Whether or not department heads attend budget conferences generally is left to the manager. Occasionally the manager may bring in a department head if he feels it is desirable in connection with explaining certain budget items or in situations where the intimate knowledge of the department head is desirable.

The administrator should make every effort to give the council a full understanding of the budget in terms of the program of work which it represents. The city council should receive more than a thick book with pages upon pages of tables, providing little or no explanation of the work program or the intent of the administration. Councilmen in such cities feel obliged to check details of expenditures, such as the amount for pencils, cost of paper, cost of tires, and so forth. The obligation to do this arises out of an absence of any broad explanation of the work program to be undertaken. As a result of this approach the council may never directly face the important policy decisions involved in setting the level of municipal services, such as:

1. Does the proposed budget provide proper balance between the various activities, especially between more essential and less essential services?
2. Do the work programs assure that adequate results will be produced and that adequate standards of service and administration will be maintained?
3. Do revenue estimates appear to be realistic? Have all expenditures and foreseeable contingencies been included? Is a proper contingency appropriation provided for emergencies?
4. Is the budget consistent with the ability and willingness of the citizens to support it? Does the budget discharge the city's responsibility to the future? Is it consistent with the city plan and with other long-term policies for the development of the community?

A good budget document will answer many of these questions. To the extent that it does not do so, the council can require the administrator to supply additional data to justify the appropriations which he has recommended.

Throughout the budget discussions the administrator ought to emphasize the work programs and point out the effect which each proposed change in the dollars and cents side of the budget would produce upon work done and service rendered to the citizens. For example, if a councilman suggests a reduction in the police department appropriation it will be the duty of the administrator to see that the councilmen understand what is involved in such a reduction and to warn them if he feels they are about to make a serious mistake. Notwithstanding his advice, the members of the council may still decide to reduce the police appropriation, but they will do so with full realization of what they are doing and of the probable effect of their action.

The joint consideration of the relationship between activities and expenditures should bring about a better mutual understanding between the council and the administrator. If the councilmen have little conception of municipal problems and little appreciation of administrative accomplishment, a clear and convincing explanation of the proposed budget and the work programs upon which it is based is an excellent device for bringing this information forcefully to their attention.

Consultations With the Citizens

When the council reaches a tentative decision regarding the proposed budget, it needs to assure itself that the program of municipal services that it is about to approve conforms with the trend of public opinion. In some communities where essential municipal services are starved and where taxes are astonishingly low, many citizens are actually under the impression, never having received specific information to the contrary, that their municipal government is extravagant and that taxes are unbearable. Under such circumstances it is small wonder that the citizens reach the conclusion that "protesting does no good", and that they fall an easy prey to agitation for various tax limitation schemes.

The budget can serve as an excellent public relations vehicle for announcing the service programs to the residents of the city. Public hearings, newspaper announcements, radio programs, speeches by public officials, and printed budget summaries all can be used to bring the budget to the attention of the taxpayers and the residents of the municipality. If emphasis is to be given to the service aspect of the budget, and how each dollar of revenue is to be tied in

to each unit of service, then the layman realizes that dollars cannot be cut from the budget without cutting something off from the service side as well.

The budget can be used as an annual report at the start of each year, just as cities send out annual reports at the end of each year. Failure to make clear all the key aspects of the budget may bring the defeat of a revenue program on which the service side of the budget was based. The city council may be compelled to cut back the tax rate, reduce expenditure estimates, and most disastrous of all, cut down on programs which were sold the citizens earlier as necessary and desirable. If new revenue levies are proposed, city officials should certainly make every effort to sell the taxpayers as to their desirability as needed adjuncts of desirable services, and no city should rely on local newspaper coverage alone to carry the load.

"Town meetings" might be held among neighborhood groups with city officials explaining what the budget means in terms of services and costs. Or perhaps the budget hearing or hearings can be made such a "town meeting", if proper preliminary steps are taken. A short leaflet summarizing the budget can be enclosed with bills rendered by the water department or other city operated utilities. The budget can be presented to, and debated by, the council in open session, thereby apprising the public of the reasons for budgetary recommendations and decisions. Organizations and individuals can be invited to attend the budget hearing. The chief administrator can appoint citizen advisory committees to review budget requirements for various departments, where circumstances render it advisable. A budget exhibit can be held at the city hall or elsewhere. A moving picture film can be prepared showing what the municipal government does, what it costs, and how it is financed.

At budget time, particularly, the value of a continuous year-round program of municipal public relations will be demonstrated. Information must be released throughout the year if citizens are to have a sympathetic understanding of city operations and of problems faced by the council and administrative officials. Many cities have availed themselves of free "public service" radio time to sponsor weekly broadcasts concerning municipal government activities. Several cities, including Berkeley, Calif., hold an "open house" day each year to "sell" municipal services by displays, motion pictures, lectures, and tours.

Public hearings on budgets generally have proved to be dismal failures, if the purpose is to ascertain the attitudes of the lay citizens on the proposals outlined in the budget. Few residents attend council meetings unless a group of them are irate over something that will hurt them, their families, or their property. Too often the only nonofficials attending budget hearings are representatives of taxpayers' organizations, local service groups pushing their "pet" projects, and others with time on their hands. However, city officials should be prepared for abrupt surprises. Citizens may decide to attend the hearing and the council and administrator should be ready and willing to answer any question. A public hearing generally is required by the charter, and a summary of the tentative budget must be published in the newspapers, together with a notice of the time and place of a public hearing at which any citizen may offer suggestions or criticisms regarding the budget. Even if not required by law, a brief budget summary should be published for wide distribution--wider than the complete document receives.

Occasionally, vigilant civic groups have utilized public hearings to expose and forestall unwise action about to be taken by a council which is either out of touch with the public opinion or which is acting in bad faith. If the budget

hearing is a mere formality and practically no one attends, local officials should not draw unwarranted inferences and assume that silence on the part of the citizens indicates consent and approval. There are, of course, communities in which that is substantially correct. In many other cases, however, citizen silence on budgetary issues and nonattendance at budget hearings indicates anything but satisfaction with the municipal government. On the contrary, it reflects a lack of citizen understanding of municipal affairs and a general lack of confidence - possibly even suspicion - due to the fact that officials have never taken the public fully into their confidence regarding the work and finances of the municipality and have never displayed any marked eagerness to ascertain or to be guided by, the wishes of the citizens.

Adoption of the Appropriation Measures

After the public budget hearings the council and the administrator consider any suggestions which the hearings may have produced. The administrator must be prepared to modify his proposed program in accordance with the desires of the council. The final budget as adopted should represent the best joint efforts of the council and the administrator. The council then proceeds to take final action upon the appropriation, tax levy, and other measures which give legal effect to the budget. The exact time, form, and manner of these acts will depend upon the requirements of the municipal charter and state law in any particular case.

Appropriations should be in "lump sum" form to each department for current expenditures and another for capital outlay. Further details, including an itemization of expenditures, should of course appear in the budget document to support and explain the items in the appropriation ordinance or resolution, but these detailed items need not, and should not, be written into the appropriation measure. The council should be empowered by law to reduce appropriations during the year or to transfer unencumbered balances from one appropriation to another. Except for expenditures from the emergency appropriation and large contracts requiring specific councilmanic approval, all appropriations granted by the council should become available for expenditure at any time at the discretion of the chief administrator without further action by the council.

When the budget has been adopted the administrator should prepare a revised draft of the budget documents finally approved showing the changes made. The revised draft will be used by the finance officer in preparing his account ledgers for budget control. Copies will be provided for use of department heads, chief administrator, and interested citizens. In large cities the revised budget usually is duplicated or printed in toto. In many cities, however, it will be adequate to prepare a summary of changes which can be attached to the original proposed budget.

Note: The experience of 10 cities on certain aspects of council action on the annual budget will be summarized in an article entitled "Council Action On The Annual Municipal Budget" in the March, 1949, issue of Public Management.